

VIRGINIA WORKERS' COMPENSATION COMMISSION
RICHMOND, VIRGINIA

REPORT ON AUDIT
FOR THE PERIOD APRIL 1, 1999
THROUGH DECEMBER 31, 1999



AUDIT SUMMARY

Our audit of the Virginia Workers' Compensation Commission for period April 1, 1999 through December 31, 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- certain matters we consider reportable conditions; however, we do not consider these matters to be material weaknesses in internal control; and;
- no instances of noncompliance that are required to be reported.

Our audit findings include issues that we explain in detail in the section entitled "Internal Control Findings and Recommendations."

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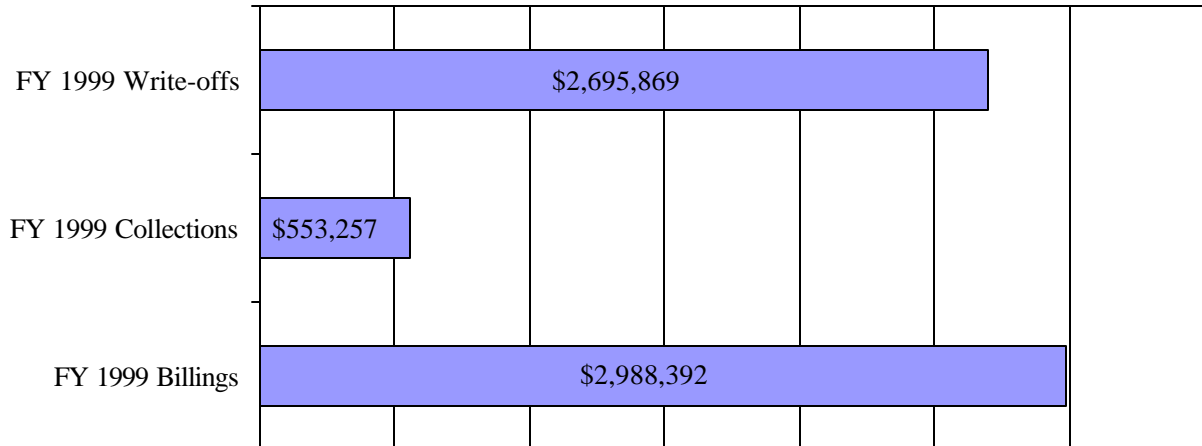
AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Commission administers the Workers' Compensation Act that protects employees with work-related injuries by compensating them for lost wages and medical expenses. The Commission processes, manages, and adjudicates all workers' compensation claims in Virginia. The Commission's major activities include hearing and investigating compensation claims, determining the amounts and duration of awards, and managing claim awards. In addition, the Commission administers claim awards for victims of crime.

The Commission is funded through taxes assessed on self-insured businesses and insurance companies which carry workmen's compensation policies for businesses. The Commission also imposes fines on uninsured business and attempts to recover the cost of awards made on behalf of the employees of uninsured business.

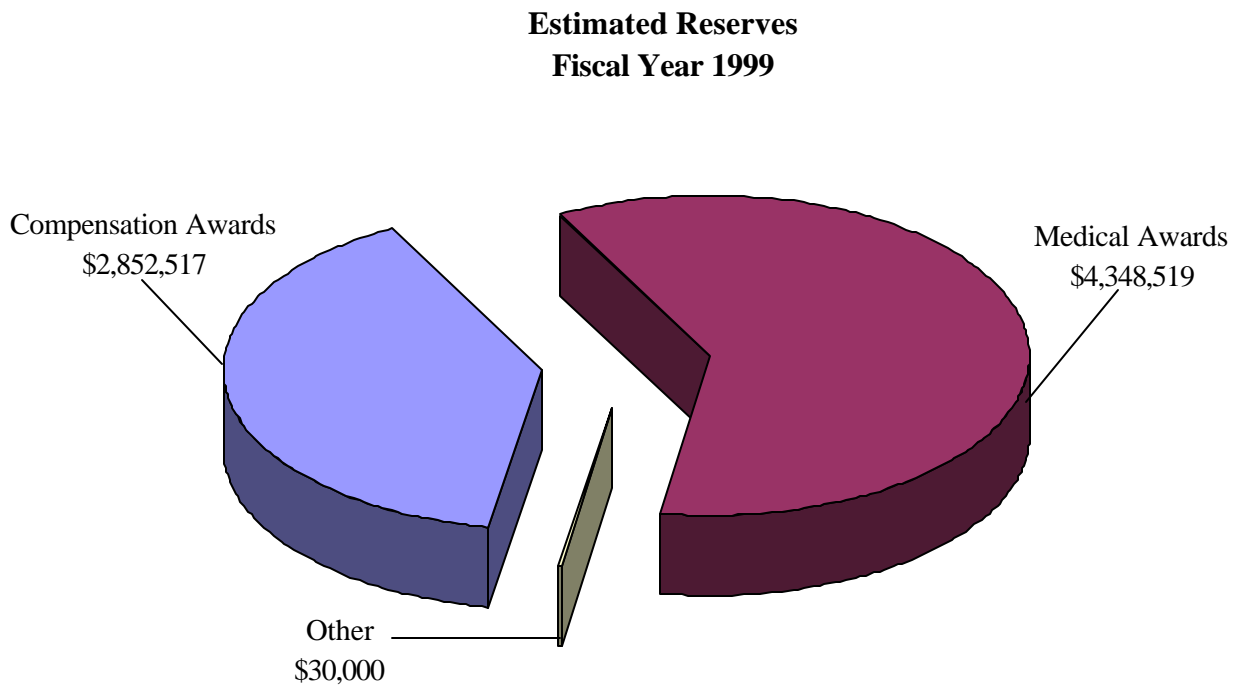
However, the Commission collects very little of these billings because the companies are uninsured and, in some cases, have already filed for bankruptcy. The following chart highlights the level of uncollectible accounts receivable for the year ended June 30, 1999.

Virginia Workers' Compensation Commission Fiscal Year 1999



The amount collected each year through assessed taxes may not exceed one year's budgeted expenses and therefore the rate assessed may fluctuate annually. However, for the past several years this rate has remained the same. The budgeted expenses include administrative costs and liabilities associated with the Uninsured Employers Fund.

Therefore, at June 30th, the Commission estimates future claim payouts for the Uninsured Employer's Fund. The Commission has contracted with Trigon for the management of claims payments under this fund. Thus, a Trigon Account Representative Insurance Manager examines open claims and determines a reserve amount, which the Commission uses as the basis for determining the liability. The total estimated reserve for fiscal year 1999 was \$7.2 million. The following chart shows the breakout between compensation and medical awards.



INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Strengthen Internal Controls Over Claim Payments

The Commission has contracted with Trigon to manage the payment of claims on behalf of the Commission. However, the Commission's Comptroller Office does not have controls in place to ensure Trigon is not paying claims or medical bills in excess of award amounts.

The Virginia Workers' Compensation Commission should improve internal controls over Trigon's claim payments. Award amounts and medical payments made by Trigon are not reconciled to Commission records. Therefore, the Commission would be unaware of Trigon making claim payments that exceeded the Commission's awarded amount.

Management should develop procedures to provide assurance that payments made by Trigon on behalf of the Commission do not exceed award amounts or pay for non-reimbursable medical claims. These procedures could include the reconciliation of wage award data to Trigon payments as well as the review and reconciliation, on a sample basis, of medical award payments to monthly medical bills.

Strengthen Computer System Access Controls

Department Supervisors do not approve the Commission's current computer systems access request form. In addition, the Commission failed to delete database access for consultants who are no longer providing services to the Commission.

We recommend the Commission change their current security access form to include signatures of the employee's supervisor. The Commission should also delete all terminated employees immediately upon their departure. This includes deletion of database and network server access.

Complete an Information Security Plan

Virginia's Workers' Compensation Commission does not have a documented Business Impact Analysis or Risk Assessment for its information systems. The Department of Technology Planning standards require all state agencies to perform and document their business impact analysis and risk assessment. Without a complete, documented business impact analysis and risk assessment, unknown threats could result in alteration, theft, or destruction of valuable information resources. In addition, the existing disaster recovery plan does not provide the detail needed to effectively restore the Commission's computing capability.

The Commission should undertake and fully document a comprehensive business impact analysis and risk assessment for all information systems as required by the Council of Information Management. Also, the Commission should revise the current Disaster Recovery Plan and thoroughly document the specific actions the Commission will undertake in case of disaster.

May 24, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia Workers' Compensation Commission** for the audit period April 1, 1999 through December 31, 1999. We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review adequacy of the Commission's internal control, and test compliance with applicable laws and regulations. We also reviewed the Commission's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed other such auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Accounts Receivable
Revenue and Cash Receipts
Expenditures
Payroll

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission's records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted certain matters involving the internal control and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions, entitled "Strengthen Computer System Access Controls," "Strengthen Internal Controls Over Claim Payments," and "Complete an Information Security Plan" are described in the subsection titled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported finding "Complete an Information Security Plan." Accordingly, we included this finding in the subsection entitled "Internal Control Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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whb:28

VIRGINIA WORKERS' COMPENSATION COMMISSION
Richmond, Virginia

COMMISSIONERS

Virginia R. Diamond, Chairman

William L. Dudley

Lawrence D. Tarr

